

Ch. 2010/2011

<p>NOR RAZUANA BINTI AMRAM</p> <p>IMPACT OF BLOCKHOLDER OWNERSHIP AND DIVIDEND PAYOUT ON GOVERNMENT-LINKED COMPANIES (GLCs) VALUE IN MALAYSIA</p> <p>MASTER 2010</p>	<p>IMPACT OF BLOCKHOLDER OWNERSHIP AND DIVIDEND PAYOUT ON GOVERNMENT-LINKED COMPANIES (GLCs) VALUE IN MALAYSIA</p> <p>NOR RAZUANA BINTI AMRAM</p> <p>MASTER OF SCIENCE (FINANCE) UNIVERSITI UTARA MALAYSIA May 2010</p>
---	--

110
2010/2011
10/11

**IMPACT OF BLOCKHOLDER OWNERSHIP AND DIVIDEND PAYOUT ON GOVERNMENT-
LINKED COMPANIES (GLCs) VALUE IN MALAYSIA**

By

NOR RAZUANA BINTI AMRAM

**Thesis Submitted to the Centre for Graduate Studies,
Universiti Utara Malaysia
In fulfillment of the requirement for the Degree of Master of Science (Finance)**



KOLEJ PERNIAGAAN
(College of Business)
Universiti Utara Malaysia

PERAKUAN KERJA KERTAS PROJEK
(Certification of Project Paper)

Saya, mengaku bertandatangan, memperakukan bahawa
(I, the undersigned, certified that)

NOR RAZUANA BINTI AMRAM (804355)

Calon untuk Ijazah Sarjana

(Candidate for the degree of) **MASTER OF SCIENCE (FINANCE)**

telah mengemukakan kertas projek yang bertajuk

(has presented his/her project paper of the following title)

**IMPACT OF BLOCKHOLDER OWNERSHIP AND DIVIDEND PAYOUT ON GOVERNMENT-
LINKED COMPANIES (GLCs) VALUE IN MALAYSIA**

Seperti yang tercatat di muka surat tajuk dan kulit kertas project
(as it appears on the title page and front cover of the project paper)

Bahawa kertas projek tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.

(that the project paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the project paper).

Nama Penyelia : **PROF. MADYA. DR. ANGAPPAN @ CHOCKALINGAM A/L REGUPATHI**
(Name of Supervisor)

Tandatangan : _____
(Signature)

Tarikh : **16 MAY 2010**
(Date)

PERMISSION TO USE

In presenting this thesis in partial fulfillment of the requirement for the Degree of Master of Science (Finance) from Universiti Utara Malaysia, I hereby agree that the University Library may make it freely available for inspection. I also agree that permission for copying this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or in his absence, by the Dean Research and Innovation, College of Business to which this thesis is submitted.

It is understood that any copying or publication or use of this thesis or parts thereof, for the purpose of financial gains shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Request for permission to copy or to make other use of materials in this thesis, in whole or in part, shall be addressed to

Dean
Research and Innovation
College of Business
Universiti Utara Malaysia
06010 Sintok, Kedah
Malaysia

ABSTRACT

Government-linked companies (GLCs) play important role in the development of Malaysian economy. Therefore, this paper examines the relationship between blockholder ownership and dividend payout towards the firm value among government linked companies (GLCs) in Malaysia. By assessing the relationship the second largest ownership data in GLCs is used to look at government intervention. This study is based on a sample of 30 firms over a period from 2004 to 2009. Statistical techniques of correlation and regression have been used to explore the relationship between blockholder ownership, dividend payout and firm's value. The finding indicates that there is significant impact between dividend payout and firm value.

ABSTRACT IN BAHASA MALAYSIA

Syarikat-syarikat berkaitan kerajaan (GLCs) memainkan peranan penting dalam pembangunan ekonomi Malaysia. Lantarananya, kertas ini memeriksa hubungan antara blockholder pemilikan dan bayaran dividen ke arah nilai firma di kalangan kerajaan mengaitkan syarikat-syarikat (GLCs) di Malaysia. Dengan menaksir hubungan kedua besar data pemilikan dalam GLCs adalah digunakan untuk melihat campur tangan kerajaan. Kajian ini adalah diasaskan satu sampel 30 firma-firma mengenai suatu tempoh dari 2004 hingga 2009. Teknik-teknik statistik korelasi dan regresi telah dibiasakan meneroka hubungan antara blockholder pemilikan, nilai bayaran dividen dan firma. Penemuan menunjukkan yang terdapat impak signifikan antara dividen.

DECLARATION PAGE

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at UUM or other institutions.

Nor Razuana Binti Amram

Signature.....

Date.....

ACKNOWLEDGEMENTS

First and foremost, greatest gratitude to Allah the Almighty who give me all that I needed to complete this dissertation. Given this opportunity, I would like to express my sincere appreciation to those who have contributed and supported me in completing this dissertation.

My special appreciation goes to my supervisor, Prof. Madya Dr. Angappan @ Chockalingam A/L Regupathi, who has guided me all the way to the completion of this research. Without his guidance and advice, this research may not even be materialized.

Special thanks to all my lecturers in UUM Kuala Lumpur City Campus who have equipped me with the invaluable knowledge and experience during my study at UUM Kuala Lumpur City Campus. Not to forget, all my course mates for their greatest support, assistance and ideas, as well as my colleagues at Universiti Tenaga Nasional.

Last but certainly not the least, I would also like to convey my deepest appreciation for the love and support from my parents, Amram Bin Walad and Sarimah Binti Abdul Rahmad.

Thank you and may Allah bless us forever.

TABLE OF CONTENTS

Certification of Thesis Work.....	ii
Permission to Use.....	iii
Abstract	iv
Abstract in Bahasa Malaysia.....	v
Declaration Page.....	vi
Acknowledgements.....	vii
Table of Contents.....	viii
List of Tables.....	x
List of Figures.....	xi
List of Abbreviations.....	xii
 CHAPTER ONE: INTRODUCTION	
1.1 Introduction.....	1
1.2 Background of the study.....	2
1.3 Problem statement.....	7
1.4 Objective of the study.....	8
1.5 Questions of the study.....	8
1.6 Significance of the study.....	8
1.7 Organisation of the study.....	9
 CHAPTER TWO: LITERATURE REVIEW	
2.1 Introduction.....	11
2.2 Definition of government-linked companies.....	11
2.3 Background of Malaysian GLCs.....	13
2.4 Criticisms of GLCs.....	15
2.5 Blockholder ownership.....	19
2.6 Dividend payout.....	24
2.7 Summary of the chapter	29
 CHAPTER THREE: RESEARCH METHODOLOGY	
3.1 Introduction.....	31
3.2 Sample and data collection.....	31
3.3 Variables' measurement.....	33
3.2.1 Dependent variables.....	33
3.2.2. Independent variables.....	34
3.4 Data analysis techniques.....	36
3.5 Hypotheses.....	38
3.6 Summary of the chapter.....	39
 CHAPTER FOUR: FINDING	
4.1 Introduction.....	40

4.2 Descriptive statistics.....	40
4.3 Correlation.....	42
4.4 Regression analysis.....	43
CHAPTER FIVE: CONCLUDING REMARKS AND LIMITATION	
5.1 Introduction.....	46
5.2 Conclusions and implications of the study.....	46
5.3 Limitations of the study.....	47
5.4 Recommendations for future research.....	48
FOOTNOTES.....	50
REFERENCES.....	51

LIST OF TABLES

<u>Table No</u>	<u>Page No</u>
3.1 Variables measurements	35
4.2 Descriptive statistics	40
4.3 Correlations	42
4.4 Model summary	43
4.4.1 ANOVA	44
4.4.2 Coefficients	44

LIST OF FIGURES

<u>Figure No</u>	<u>Page No</u>
3.1 Framework	35

LIST OF ABBREVIATIONS

GLCs	government-linked companies
e.g	<i>(exempligratia)</i> ; for example
EPS	Employees Provident Fund
et al.	<i>(et alia)</i> ; and others
KLSE	Kuala Lumpur Stock Exchange
n.d.	no date
no.	number
OLS	Ordinary least squares
p.	page
PCC	Pearson correlation coefficient
PNB	Permodalan Nasional Berhad
sig.	significance
TSE	Tokyo Stock Exchange
UK	United Kingdom
US	United States

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Good corporate governance can help development external financing of the firms, strong dividend payments and improve the efficiency of investment (La Portal *et al.* (2000)). Malaysia has implemented the reform of corporate governance in the form of *Malaysian Code on Corporate Governance 2001* (MCCG 2001). The amendment of regulations (e.g. the revamp of Listing Requirements of Bursa Malaysia and securities law amendments), institutional reforms (e.g. the establishment of Minority Shareholders Watchdog Group (MSWG) as the introduction of relevant industry best practices.

Enron and WorldCom in U.S. have collapsed under massive restatement of their financial statements. New York Times, "After 10 years, corporate oversight is still dismal," (January 26, 2003). The events happen at East Asian Financial crisis in late 1997 show the failure of corporate governance systems internationally. Malaysia scandals have also reported, such as Perwaja Steel, Malaysia Airline, Technology Resources Industries, Sime Darby and Bumiputra Malaysia Finance (Rashidah, 2006).

The present study basically attempts to augment the existing evidence on the association between firms' value and their governance

The contents of
the thesis is for
internal user
only

REFERENCES

Abdullah Ahmad Badawi. (2004, May). Keynote address at seminar on Culture of High Performance for GLCs.

An attempt to revive Malaysia's underperforming state-owned firms. (2005, august, 18). Retrieved January27,2006. <http://www.economist.com>.

Ang, J.S. and Ding, C.K (2005), "Government Ownership and the Performance of Government Linked Companies: The Case of Sinagpore", *Journal of Multiple Financial management*, pp1-25.

Annuar, M.N., and Shamsheer M. (1993) The dividends and earnings behaviour of firms on the Kuala Lumpur Stock Exchange. *Journal of Social Science and Humanities*, 1, 171 – 177.

Annuar, M.N., M. Ariff and Shamsheer M. (1992) A test of semi-strong efficiency of the KLSE: the effect of annual earnings and dividend announcements on stock prices. *Malaysian Journal of Economic Studies*, 29, 35 – 50.

Arden, D. B. E. (2003). U.K. Corporate Governance After Enron, *Journal of Corporate Law Studies*, 3, 2: 269-282.

Baker, H. K. and Powell, G. E. (2000). Determinants of corporate dividend policy: A survey of NYSE firms. *Financial Practice and Education*, 10, 29-40.

Barclay, M.J., & Holderness, C.G. (1991). Negotiated Block Trades and Corporate Control. *Journal of Finance*, 46(3):861-878.

Barza, F. and M. Becht. (Eds.). (2001). *The Control of Corporate Europe*. Oxford University Press. Oxford.

Benartzi, S., Michaely, R. and Thaler, R. (1997) Do changes in dividends signal the future or the past. *Journal of Finance*, 52, 1007 – 1034.

Berle, A., & Means, C. (1932). *The modern corporation and private property*. New York: Macmillan.

Bethel, J.F., Porter, J. and Opler, T. (1998). Block Share Purchases and Corporate Performance. *Journal of Finance* 53(1):605-634.

Black, F. (1976), The dividend puzzle, *The Journal of Portfolio Management* ,2, 72-77.

Black, F. and Scholes, M.S. (1974) The effect of dividend yield and dividend policy on common stock prices and returns. *Journal of Financial Economics*, 1, 1 – 22.

Burkart, M. (1997). Large shareholders, monitoring, and the value of the firm. *The Quarterly Journal of Economics*, 112(3):693-729.

Chau, G.K. and Gray, S.J. (2002), "Ownership structure and corporate voluntary disclosure in Hong Kong and Singapore", *The International Journal of Accounting*, Vol. 37, pp. 247-65.

Chen, C. R., Guo, W., & mande, V. (2003). Managerial ownership and firm valuation: Evidence from Japanese firms. *Pacific-Basin Finance journal*, 11, 267-283.

Cheong, Pearlene. (2004). Revamp of government-linked companies. Retrieved December 20, 2004. <http://www.pwc.com/extweb/frmc1p11.nsf.docid>

Chung, K. H. and S.W. Pruitt. (1994). A Simple Approximation of Tobin's Q. *Financial Management*, 23(3): 70-74.

Claessens, S., Djankov, S., Fan, J., Lang, L., 2002. Disentangling the incentive and entrenchment effects of large shareholders. *Journal of Finance* 57, 2741–2771.

Complete restructure of GLCs. (2004, July 26). Retrieved December 20, 2004. <http://www.utusan.com.my>

DeAngelo, H., DeAngelo, L. and Skinner, D. (2004). Are dividends disappearing? Dividend concentration and the consolidation of earnings. *Journal of Financial Economics*, 72, 425-456.

Economic Planning Unit. (n.d.). Privatization policy. Retrieved December 20, 2004. <http://www.epu.jpm.my>

Fama, E., Jensen, M.C., 1983. Separation of ownership and control. *Journal of Law and Economics* 26, 301–325.

Fama, E.F. and Babiak, H. (1968) Dividend policy: an empirical analysis. *Journal of American Statistical Association*, 63, 1132 – 1161.

- Fang, F., Qian, S., & Tong, W.H.S. (2004). Do government-linked companies underperform? Retrieved December 20, 2004. <http://www.sciencedirect.com>
- Friend, I. and Puckett, M. (1964) Dividend and stock prices. *American Economic Review*, 54, 656 – 682.
- Graddy, D.B. and Karna, A.S. (1986) Dividend policy and the return on bank holding company stock. *Quarterly Journal of Business and Economics*, 25, 3 – 21.
- Gursoy. G. and Aydogan, K (2002),” Equity Ownership Structure Risk Taking and Performance: An Empirical Investigation in Turkish Listed Companies”, *Emerging Market Finance and Trade*, Vol.38, no.6,pp.6-25.
- Han, K.C., & Suk, D.Y. (1998). The effect of ownership structure on firm performance: Additional evidence. *Review of Finance Economics*, 7(2), 143-155.
- Hiraki, T., Ito, A., Kuroki, F.,& Masuda, H. (2003). Corporate governance and firm value in Japan: Evidence from 1985 to 1998. *Pacific-Basic Finance Journal*, 11, 239-265.
- Hossain, M., Tan, L.M. and Adams, M.B. (1994), “Voluntary disclosure in an emerging capital market: some empirical evidence from companies listed on the Kuala Lumpur Stock Exchange”, *International Journal of Accounting*, Vol. 29 No. 4, pp. 334-51.
- Huddart, S. (1993), “The effect of a large shareholder on corporate value”, *Management Science*, Vol. 39 No. 4, pp. 1407-21.
- Jensen, M. C., & Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3: 305-360.
- Jensen, M.C., Meckling, W.H., 1976. Theory of the firm: managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3, 305–360.
- Jomo, K.S. (20020. Privatization’s distributional impact in Malaysia. Retrieved December 20, 2004. <http://unpan1.un.org/intadoc/groups/public/documents>

Kolesnikov-Jessop. S. (2004, September 28). Analysis: the return of Malaysia GLCs. Retrieved 20 December, 2004. <http://washingtontimes.com>.

Kumar, J (2003), " Does Ownership Structure Influence Firm Value? Evidence from India", *Journal of Financial Management*, pp1-45.

La Porta, R., Lopez de Silanes, F., Shleifer, A., & Vishny, R. W. (2000a). Agency problems and Dividend Policies around the World. *Journal of Finance*, 55(1): 1-33.

La Porta, R., Lopez de Silanes, F., Shleifer, A., & Vishny, R. W. (1999). Corporate ownership around the world. *The Journal of Finance*, 54(2): 471-519.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R., 2000. Agency problems and dividend policies around the world. *Journal of Finance* 55, 1–33.

La Porta, R., Lopez-de-Silanes, F., Shleiffer, A. and Vishny, R. W. (2000b). Investor Protection and Corporate Governance, *Journal of Financial Economics*, 58, 1: 3-28.

La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer, (1999), Corporate ownership around the world, *Journal of Finance* 54, 471-517.

Lintner, J. (1956) The distribution of incomes of corporations among dividends, retained earnings, and taxes. *American Economic Review*, 46, 97 – 113.

Liza Mohd Noor. (2003). Coupling of government-linked companies to benefit local bond market. Retrieved December 20,2004. <http://www.ram.com.my>

Loderer, C., & Martin, K. (1997).Executive stock ownership and performance. *Journal of Financial Economics*, 45: 223-255.

M., and Maz Ainy, A. A. (2006). Dividend survey 2006. Kuala Lumpur: MSWG

Malaysian Code on Corporate Governance (MCCG). (2001). Malaysian Institute of Corporate Governance (MICG). *Malayan Law Journal Sdn Bhd: Kuala Lumpur*.

- Mansor, M. I. (1993) Dividend and share value: the case of Malaysia. *Securities Industry Review*, 19, 43 – 56.
- Mansor, M. I. and Subramaniam, V. (1992) The effects of dividend and earnings announcement on stock prices in the Malaysian stock market. *Malaysian Journal of Economic Studies*, 29, 35 – 49.
- McConnell, J. J., & Servaes, H. (1990). Additional evidence on equity ownership and corporate value. *Journal of Financial Economics*, 27(2): 595-612.
- McConnell, J.J., Servaes, H., 1990. Additional evidence on equity ownership and corporate value. *Journal of Financial Economics* 27, 595–612.
- Miller, M. and Modigliani, F. (1961) Dividend policy, growth and the valuation of shares. *Journal of Business*, 34, 411 – 433.
- Miller, M. and Modigliani, F. (1961) Dividend policy, growth and the valuation of shares. *Journal of Business*, 34, 411 – 433.
- Mohammed Amidu & Joshua Abor, 2006. "Determinants of dividend payout ratios in Ghana," *Journal of Risk Finance*, Emerald Group Publishing, vol. 7(2), pages 136-145, March.
- Mokhtar, A. (2005). The Malay Way of Business Change. *Economist*, 376(8440): 50.
- Mokhtar, S.H., Md. Nassir, A. and Hassan, T. (2006) Detecting rational speculative bubbles in the Malaysian stock market. *International Research Journal of Finance and Economics*, 6, 102 – 115.
- Morck, R., Shleifer, A., & Vishny, R. (1988). Management ownership and firm value: An empirical analysis. *Journal of Financial Economics*, 20(1): 293-315.
- Morck, R., Shleifer, A., Vishny, R.W., (1988). Management ownership and market valuation—an empirical analysis. *Journal of Financial Economics* 20, 293–315.
- Mudambi. R., & Nicosia, C. (1998). Ownership structure and firm performance: Evidence from the UK financial services industry. *Applied Financial Economics*, 8, 175-180.

Noe, T. (2002), "Institutional activism and financial market structure", *Review of Financial Studies*, Vol. 15 No. 1, pp. 289-319.

Norhayati, M. (2005). Information signalling and dividend policies in Malaysia. Unpublished Ph.D. Thesis, Universiti Putra Malaysia.

Normah, O., Rashidah, A. R., Wee, S. H., Nor'azam, M., Norhayati, M., Wan Azmimi, W. M., and Maz Ainy, A. A. (2006). Dividend survey 2006. Kuala Lumpur: MSWG and UiTM.

Owner Identity and Market Valuation among the Largest European Companies, Working Paper, 2000.

Perfect, S. B., and K. W. Wiles. "Alternative Construction of Tobin's Q: An Empirical Comparison." *Journal of Empirical Finance*, 1(1994), 313-341.

Pruitt, S. W. and Gitman, L. J. (1991). The interactions between the investment, financing, and dividend decisions of major US firms. *Financial Review*, 26(3), 409-430.

Putrajaya Committee on High Performance GLC (2006), "Initiative 3: Government linked investment company monitoring and management framework", available at: <http://www.pcg.gov.my> (accessed 1 July 2008).

Putrajaya Committee on High Performance GLC (2008), "GLC transformation programme: Progress review", available at: <http://www.pcg.gov.my> (accessed 1 July 2008).

Putrajaya Committee on High Performance GLC, (2005), "Catalyzing GLC transformation to advance Malaysia's development", available at: <http://www.pcg.gov.my> (accessed 1 July 2008).

Putrajaya Committee on High Performance GLC, (2005), "Stock takes of the implementation of performance linked compensation in government linked companies", available at: <http://www.pcg.gov.my> (accessed 1 July 2008)

Ramirez, C.D., & Ling, H.T. (2003). Singapore Inc versus the private sector: Are government-linked companies different? *International Monetary Fund working Paper*.

Rashidah, A. R. (2006). Effective Corporate Governance. University Publication Centre (UPENA), Universiti Teknologi MARA: Shah Alam.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *Journal of Finance*, 52(2): 737-83.

Shleifer, A., Vishny, R., 1986. Large shareholders and corporate control. *Journal of Political Economy* 94, 461–488.

Short, H. and Keasy, K. 1999. Managerial Ownership and the Performance of Firms. *Journal of Corporate Finance*. 5(1): 79-101.

Smith, K.V. (1971) Increasing stream hypothesis of corporate dividend policy. *California Management Review*, 14, 56 – 64.

Steen Thomsen, (2000), "Blockholder Ownership, Dividends and Firm Value in Continental Europe."

Stultz, R.M. (1988). Managerial control of voting rights: Financing policies and the market for corporate control. *Journal of Financial Economics*, 20: 25-54.

Tee, L.S. & Nathan, D.M. (2005), December, 31).A look at the government-linked companies performance in 2005. Retrieved January 27, 2006. <http://biz.thestar.com.my>

Telekom Malaysia Berhad. (2004).Annual report 2003. Kuala Lumpur: Author.

Tian, L. and Estrin, S. (2005)," Retained State Shareholding in China PLCs: Does Government Ownership Reduce Corporate Value?", IZA Discussion Paper No.1493. IZA Born.

Toh, H.C. (2004, May). Reform of GLCs. *Investor Digest*. Pp. 16-20.

United States Embassy. (2001, March). Singapore government-linked corporations face the future. Retrieved December 20, 2004.

<http://www.usembassysingapore.org.sg/ep/2001/GLC2000.html>

